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Finance (195₄8) Department.

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G.O. No.	317
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Dated	1-4-48

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[Despatch Abstract.]

Legislative Council questions Nos. 155 and 171 by Sri B. Narayanaswami, M.L.C. - regarding portion of sterling balance attributable to Madras Government and allocation of revenues between the centre and Province - Questions answered - Paper Recorded.

Question No. 155

Will the Hon'ble Minister for Finance be pleased to state:--

(a) how much of the sterling balances of India in England represent the portion attributable to Madras contribution and how much of the sterling balances released for India are given to Madras Province.

(b) whether any representations have been made to the Government of India in the matter of apportionment of sterling balances by the Madras Province, if so, a copy of such representation may be placed on the table of the House.

(c) whether any instructions have been issued by the Madras Government to the members of the Constituent Assembly representing Madras and data furnished to them to guide them in the formula for allocation of revenues between the Centre and Provinces; if so, the same may be placed on the table of the House; if not why not.

(d) whether the members of the Constituent Assembly representing Madras have placed any representation in the formulation of such allocation and if so, in regard to what mode of revenue.

(e) whether the members of the Constituent Assembly representing Madras have been given a mandate to subscribe to such allocation without reference to the Assembly that elected them?

Finance (Mad) Department.

Answer.

(a) The sterling balances in England relating to the dominions of India and Pakistan are the property of the Reserve Bank of India and are held by the Bank partly in the Issue Department as part of the reserve against the note issue and partly in the Banking Department as part of its assets against its liabilities. It is not the case that any portion of the balances was "contributed" by, or "attributable to", any particular Province.

(b) No specific allotments from the sterling balances are made for sale to Provincial Governments for meeting their overseas expenditure. Sterling has been made available hitherto without difficulty for all necessary Government purposes. The purchase of sterling by residents in India for use for non-Governmental purposes is controlled by the Governments of India and of Pakistan through their systems of Import Control and Exchange Control. Questions relating to the utilisation of the sterling balances fall within the Central subjects "Currency" and "External Affairs", and the Madras Government have no power in regard to them.

(b) No such representation has been made.

Clauses (c) and (d). The question of the allocation of revenues between the Union and the Units under the new Constitution was discussed informally at a Conference held by the Finance Minister of the Madras Government at which some members of the Constituent Assembly representing Madras were present,

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and certain suggestions were made by them. These suggestions were considered by the Government, and on the basis of the decisions reached by them the Finance Minister of the Madras Government gave notice that he would move in the Constituent Assembly certain amendments to the Federal and Provincial Legislative Lists proposed by the Union Powers Committee of the Constituent Assembly and also an amendment to paragraph 6 of the Report of that Committee. A copy of the amendments of which notice was given by the Finance Minister is furnished in the Annexure. The amendments proposed to item 72 in the Federal List and item 41 in the Provincial List would make all excise duties a Provincial subject. The amendments proposed to items 73 and 77 in the Federal List, viz., Corporation Tax and Income-Tax, would add provisions to them requiring that at least 50 per cent of the net proceeds should be distributed to the Units in which the taxes were levied.

These amendments were not reached during the last session of the Constituent Assembly. The matter will no doubt be considered further at the next session. Those members of the Madras Government who are members of the Constituent Assembly will continue to press the claim of the Provinces for sources of revenue reasonably commensurate with their responsibilities.

(c) whether there is no provision for members of the Constituent Assembly to refer to the Assembly that elected them any points that arise to be dealt with by the Constituent Assembly and the question of a "mandate", therefore, does not arise.

It is open to the members of the Madras Legislature to make suggestions in regard to the allocation of revenues between the Centre and the Provinces when a suitable opportunity arises for discussing the matter in the Madras Legislature. The Government will give due consideration to any such suggestions, when deciding on the representations to be made by this Government to any Committee of Experts that may be appointed by the Constituent Assembly to consider the question, and on the attitude to be adopted by the members of this Government who are members of the Constituent Assembly when the matter is dealt with by that Assembly.

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ANNEXURE.

Amendments to be moved by the Hon'ble Sri B. Gopala Reddi, Minister for Finance, Madras.

...

1. Para. 6 of the Report.

"6. We recommend to the Assembly the proposals contained in para 8-7 of our previous report on the subject of federal taxation. It is quite clear, however, that the retention by the Federation of the proceeds of all the taxes specified by us would disturb, in some cases violently, the financial stability of the Units and we recommend therefore that provision should be made for an assignment, or a sharing, of the proceeds of some of these taxes on a basis to be determined by the Federation from time to time."

Amendment. That in para e for the words "by the Federation from time to time" the following be substituted -

"at intervals of five years by a Commission to be established by an Act of the Federal Legislature containing a fixed number of members appointed by the Federal Government, an equal number of members appointed by the Governments of the Units under a suitable procedure, and a Chairman who has held high judicial office elected by the members representing the Federal Government and the Units."

2. Item 72 - List I - Federal Legislative List

"72. Duties of excise on tobacco and other goods manufactured or produced in India except -

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and narcotics; non-narcotic drugs;
- (c) medicinal and toilet preparations containing alcohol, or any substance included in sub-paragraph (b) of this entry."

Amendment. That item 72 be deleted.

3. Item 73 - List I - Federal Legislative List.

"73. Corporation Tax."

Amendment. That at the end of item 73 the following proviso be added:

"Provided that at least fifty per cent of the net proceeds shall be distributed among the Provinces and the Federated States in which the tax is levied, and that the distribution shall be made according to principles formulated by Act of the Federal Legislature."

4. Item 77 - List I - Federal Legislative List.

"Item 77. Taxes on income other than agricultural income."

That at the end of item 77 the following proviso be added:

"Provided that at least fifty per cent of the net proceeds shall be distributed among the Provinces and the Federal States in which the tax is levied, and that the distribution shall be made according to principles formulated by Act of the Federal Legislature."

5. Item 79 - List I -

"79. Duties in respect of succession to property other than agricultural land."

Amendment. That in item 79, the words "other than agricultural land" be deleted, and the following proviso be added at the end of the item:-

"Provided that the net proceeds shall not form part of the revenues of the Federation but shall be

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assigned to the Provinces and to the Federal States in which the tax is levied, and shall be distributed among them according to principles formulated by Act of the Federal Legislature."

6. Item 80 - List I.

"80. Estate duty in respect of property other than agricultural land".

Amendment. That in item 80, the words "other than agricultural land" be deleted, and the following proviso be added at the end of the item:--

"Provided that the net proceeds shall not form part of the revenues of the Federation but shall be assigned to the Provinces and to the Federated States in which the tax is levied, and shall be distributed among them according to principles formulated by Act of the Federal Legislature."

7. Item 81 - List I.

"81. The rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts."

Amendment. That the following proviso be added at the end of item 81:--

"Provided that the net proceeds shall not form part of the revenue of the Federation but shall be assigned to the Provinces and to the Federated States in which the tax is levied, and shall be distributed among them according to principles formulated by Act of the Federal Legislature."

8. Item 82 - List I.

"82. Terminal taxes on goods or passengers, carried by railway or air; taxes on railway fares and freights."

Amendment. That the following proviso be added to item 82 at the end:

"Provided that the net proceeds shall not form part of the revenues of the Federation but shall be assigned to the Provinces and to the Federated States in which the tax is levied, and shall be distributed among them according to principles formulated by Act of the Federal Legislature."

That after item 82, the following new item be inserted:--

New Addition "82-A. Taxes on the sale of stock, shares, SE-A. debentures and similar securities, provided that the net proceeds shall not form part of the revenues of the Federation but shall be assigned to the Province and to the Federated States in which the tax is levied, and shall be distributed among them according to principles formulated by Act of the Federal Legislature."

9. Item 41 - List II - Provincial Legislative List.

"41. Duties of excise on the following goods manufactured or produced in the Province and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in the territories of the Federation -

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and

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narcotics; non-narcotic drugs;
(c) medicinal and toilet preparations containing alcohol,
or any substance included in sub-paragraph (b) of this
entry."

Amendment. That in item 41, the words "the following" in
sub-para (a), (b) and (c) be deleted.

10. Items 44 and 45 - List II.

"44. Duties in respect of succession to agricultural land..
45. Estate duty in respect of agricultural land."

Amendment. That items 44 and 45 be deleted.

11. Item 50 - List II.

"50. Taxes on the sale of goods and on advertisements."

Amendment. That for item 50, the following be substituted:--

"50. Taxes on the sale of goods, and, subject to the
provisions of List I, of services.

50-A. Taxes on Advertisements."

(APPROVED BY THE HON'BLE MINISTER--FINANCE)

Secretary to Government.
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To the Secretary, Madras Legislature
(Council Section) 3 copies.
To the Personal Assistant to Hon'ble
Minister (Finance) (2 copies)

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Finance (W&M) Department.

The two unstarred questions No.155 in this file and No.171 in the linked file below have been answered on 21-10-47. A copy of the printed proceedings is attached on pages 13-17 c.f. These two cases may be recorded as a G.O. for future reference.

G.O.No.317 Finance dated 1-4-48.

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31-3-48.

Abstract:-

Legislative Council Questions No.s.155 and 171 by Sri B.Narayananaswami Naidu, M.L.C. regarding portion of Sterling Balances attributable to Madras Government and allocation of revenues between the centre and Province - Questions answered - Papers Recorded.

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Madras Record Office.

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12-12-47